

VZCZCXRO2476
OO RUEHDE RUEHDIR
DE RUEHAD #1225 2971409
ZNY CCCCC ZZH
O 231409Z OCT 08
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1657
INFO RUEHDE/AMCONSUL DUBAI PRIORITY 8006
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

C O N F I D E N T I A L ABU DHABI 001225

SIPDIS

DEPARTMENT FOR NEA/FO, NEA/ARP (BMASILKO) AND EEB
STATE PLEASE PASS USTR (BUNTIN)

E.O. 12958: DECL: 10/15/2018
TAGS: [EFIN](#) [ECON](#) [EINV](#) [PGOV](#) [AE](#)
SUBJECT: ABU DHABI EYEING INVESTMENT IN DUBAI

REFS: A) ABU DHABI 1221
B) ABU DHABI 1141
C) ABU DHABI 1079

Classified by Ambassador Richard G. Olson for reasons 1.4 (b,d).

11. (C) Summary. While the international financial crisis may bring a slowdown to the UAE (Ref A), Abu Dhabi residents seem confident their financial future is secure. Financial insiders report that the Abu Dhabi Investment Authority remains flush with cash despite its paper losses. Everyone is speculating about the future of Dubai, which is rumored to face a near term liquidity short fall. If an Abu Dhabi bailout is necessary, officials here will most likely handle with discretion and subtlety. End Summary.

ABU DHABI'S DEEP POCKETS...

12. (C) All indications suggest that, despite significant declines in world markets, the Abu Dhabi Investment Authority (ADIA) remains circumspect about its holdings and enjoying a strong cash position. One ADIA advisor told EconOff on October 15 that the response of ADIA's leadership to recent market uncertainty (but certain losses) is only slightly heightened from its usual "complete indifference." Senior Citi officials told the Ambassador on October 20 that ADIA's past "excess" liquidity may have been reduced to "abundant" liquidity. Most Abu Dhabi residents feel confident that ADIA's coffers will help the Emirate survive the international slowdown, which has been part of ADIA's mandate since its creation.

MAY HOLD THE KEY TO DUBAI'S SURVIVAL

13. (C) The real and perceived strength of ADIA and related Abu Dhabi investment bodies has shifted people's focus to the state of Dubai's economy. A recent Moody's report claimed that state-owned entities in Dubai have \$47 billion in debt. While senior Citi officials disputed the total in an October 20 discussion with the Ambassador, rumors abound that Dubai Ruler Sheikh Mohammed Bin Rashid Al Maktoum asked UAE President and Abu Dhabi Ruler Sheikh Khalifa Bin Zayed Al Nahyan for a multibillion dollar bailout in early October. One source said MbR asked for \$80 billion, but left with only \$25 billion. Others report it was closer to \$15 billion. In a carefully worded October 15 conversation with the Ambassador, Mubadala CEO Khaldoon Al Mubarak said that Abu Dhabi would not let Dubai default, but added that Dubai itself would never allow Dubai to fail. Abu Dhabi Executive Council members Hamad al Hurr al Suweidi and Nasser al Sowaidi have often stated that Abu Dhabi would never turn its back on any of the other Emirates during times of need.

14. (C) Whatever the actual dollar value of a bailout, most observers seem to agree that Abu Dhabi will act with diligence. Dubai Holding Executive Chairman Fadel al Ali indicated that several Dubai Inc. entities would require bridge financing to cover maturing debt and

existing obligations while international funding markets remained frozen. Local banks would fill this temporary funding gap, according to al Ali, with Abu Dhabi serving as the unstated deep pocket boosting bank balance sheets. Dubai will need to substantially slow its growth until the crisis passes. Citi officials told the Ambassador that the Abu Dhabi Investment Council (ADIC) is one likely source of funds to invest directly in needy Dubai companies, as it has a clear domestic investment mandate (unlike ADIA).

15. (C) Comment: Predicting Dubai's demise has long been a pastime of Abu Dhabi residents, who may have been jealous of their neighbor's success. However, despite Dubai's tight financial circumstances and Abu Dhabi's relative wealth, there is no indication that the rivalry between the two emirates will keep Abu Dhabi from helping if needed. As the Deputy CEO of the Abu Dhabi Securities Exchange told EconOff, "Dubai is the heart of the Gulf. If you stop the heart, the body will die."

16. (C) Comment continued: Abu Dhabi will seek to aid its ailing neighbor without setting a precedent that could institutionalize moral hazard in Dubai. Abu Dhabi will also be careful to avoid taking steps that could endanger the credit risk profile of the Emirate itself and its growing corporate sector, as they require substantial debt finance to fund development through at least the next decade. End comment.
OLSON